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The economic consequences of Shariah governance: a systematic literature review and research agenda

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Abstract

Purpose – The purpose of this study is to provide a comprehensive critical review of previous research on Shariah governance (SG) during the past three decades. This research addresses a critical research problem: the fragmentation of knowledge regarding how SG characteristics affect the multidimensional performance of Islamic financial institutions (IFIs) beyond conventional financial metrics. Despite the growing importance of IFIs in the global financial system, we still inadequately understand how SG practices influence operational efficiency, risk profiles, stakeholder trust and long-term sustainability. This limitation hinders the development of comprehensive SG frameworks that could enhance the resilience and ethical compliance of IFIs. In addition, this study offers insights into the phases of development of SG, identifies the critical gaps in the literature and recommends for future research.

Design/methodology/approach – In this study, the authors use a systematic literature review approach for a sample of 110 studies from Scopus and Web of Science databases. Based on identified quality assessment criteria, they evaluated the sample of this study in terms of journals, methodology, theories, modelling, research outcomes and SGs features.

Findings – Using a systematic literature review approach for a sample of 110 studies from Scopus and Web of Science databases, this paper findings demonstrate that there is a growing interest to explore further SG aspects because of the rapid steady growth and the high performance of IFIs. Likewise, the review reveals that most of existing studies are quantitative and were carried out using archived data. In addition, the existing literature has primarily focused on the outcomes of SG. Overall, this paper shows that there are plenty avenues for future research. The findings identify a number of methodological problems and concerns and discuss the implications of these problems, while also providing recommendations for future research.

Research limitations/implications – This paper makes significant contributions to both corporate finance literature and practical applications in several important ways. First, this study represents a pioneering comprehensive examination of all aspects of SG, filling a notable gap in existing literature. By using a systematic approach, the authors thoroughly evaluate relevant previous works on SG and provide evidence-based recommendations for future research directions, creating a foundation for scholarly advancement in this field. Second, through the synthesis and analysis of an extensive body of research, this study develops a nuanced understanding of the economic consequences of SG mechanisms. These insights offer substantial practical value by providing evidence-based guidance to practitioners and regulatory bodies in developing more effective policies and recommendations. Financial institutions can leverage these findings to design

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governance frameworks that enhance compliance while optimizing performance, while regulators can use this synthesis to revise the current policy framework and formulate more comprehensive and effective oversight mechanisms that address the unique challenges of IFIs.

Practical implications – Through the systematic literature review of the economic consequences of SG, the authors demonstrate that the societal implications extend beyond the financial sector. The findings reveal how strong SG practices enhance public trust and financial inclusion, particularly among conservative Muslim communities. Improved governance mechanisms promote responsible financial practices, influencing policy development and enhancing financial literacy at the community level. These outcomes illustrate the practical impact of governance improvements on community well-being and social development.

Originality/value – To the best knowledge of the authors, this study contributes to the literature by being the first of its kind to discuss the development of SG literature. This study provides a comprehensive knowledge assessment of existent SG research and offers advice regarding improvements in research, policy and practice by identifying possible knowledge gaps. Accordingly, this study offers a consistent summary of the past and a roadmap for future research on SG.

Keywords Shariah governance, Islamic finance, Shariah board, Literature review

Paper type Research paper

1. Introduction

Islamic finance has witnessed remarkable growth since its inception in 1975 with the establishment of the world's first modern Islamic bank, the "Dubai Islamic Bank." Henceforth, Islamic finance assets are growing worldwide to reach, in 2020, US$3,374bn with an average annual growth rate of 8%. Today, 1,595 IFIs are operating globally across 47 countries (Islamic Finance Development report, 2021). Given the rapid expansion of Islamic finance, both regulatory bodies and industry practitioners have increasingly emphasized the necessity of establishing a robust governance framework within IFIs to uphold the stability of the sector. Indeed, Islamic finance presents distinct challenges in terms of corporate governance, as IFIs have to conduct their operations according to Shariah law (Grassa, 2013). Corporate governance of IFIs would first look at the transactional structure to see whether the transaction involves elements that invalidate gains or profits (Ibrahim *et al.*, 2006). Given that Shariah is concerned with both, the substance and the structure of the financial transaction, corporate governance in IFIs essentially derives from two fundamental components: a faith-based approach requiring that business operations are conducted in accordance with Shariah and a profit-motive looking to maximize shareholders financial interests (Grassa, 2013). To maintain continuous compliance with Shariah rules, a supplementary board consisting of Islamic experts well-versed in jurisprudence and contemporary finance has emerged, known as the Shariah board (SB). This board serves as a regulatory check on the operations of IFIs and adds an additional layer of monitoring and control alongside the regular board of directors. To standardize practices within the industry, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed Shariah standards.

Using a systematic literature review constitutes an indispensable methodological approach within corporate finance research, providing a rigorous and transparent synthesis of fragmented knowledge across numerous empirical studies (Tranfield *et al.*, 2003). Such reviews reconcile competing theoretical frameworks by identifying contextual variables that elucidate contradictory findings and inform policy formulation by aggregating comprehensive evidence (Baumeister and Leary, 1997). By translating disparate research findings into coherent insights, the systematic literature review approach enables evidence-based financial decision-making that transcends anecdotal approaches, especially in the evolving landscape of corporate finance, characterized by innovative financial instruments and complex market structures. Notwithstanding their significance, a limited number of such reviews have been conducted regarding Shariah governance (SG), representing a notable lacuna in the current body of knowledge. Hassan and Raza Rabbani (2023) synthesized previous studies that delved into the role played by the AAOIFI in influencing the performance of IFIs. Similarly, Minaryanti and Mihajat (2024) conducted a systematic review to explore the relationship between SG and financial performance within the Islamic banking industry. Pahlevi (2023) conducted a bibliometric review of Islamic corporate governance literature, identifying various research streams that encompass Islamic corporate governance, such as the fundamentals, analysis and applications within the realm of Islamic finance. While these reviews contribute to the understanding of SG literature, it is worth noting that they have predominantly focused on SG's correlation with financial performance, often overlooking other critical aspects linked to SG, such as risk management, disclosure practices and efficiency.

Therefore, our systematic review addresses a critical research problem: the fragmentation of knowledge regarding how SG characteristics affect the multidimensional performance of IFIs beyond conventional financial metrics. Despite the growing importance of IFIs in the global financial system, we still inadequately understand how SG practices influence operational efficiency, risk profiles, stakeholder trust and long-term sustainability. This limitation hinders the development of comprehensive SG frameworks that could enhance the resilience and ethical compliance of IFIs. Our research addresses this problem through three specific objectives:

(1) to systematically map and analyze the existing body of literature on SG mechanisms and their impacts across various performance dimensions of IFIs;
(2) to identify and evaluate empirical evidence on the causal relationships between specific SG structures and risk management outcomes in different institutional contexts; and
(3) to develop an integrated theoretical framework that synthesizes emerging research streams on the broader economic consequences of SG.

The significance of addressing this gap is substantial, as findings will inform both regulatory frameworks and institutional practices in a rapidly growing sector that manages over $2tn in assets globally. By elucidating the complex interrelationships between governance mechanisms and institutional outcomes, this research will provide actionable insights for practitioners while advancing theoretical understanding of faith-based governance systems.

Previous studies (Pedrini and Ferri, 2019) have shown that systematic literature reviews help to synthesize research in a reproducible, transparent and systematic way to identify significant gaps, contribute to the development of theories and provide guidelines for future research. For this reason, a study of this kind is necessary for SG practices in IFIs, particularly one that moves beyond the narrow focus on financial metrics that has characterized prior reviews.

This paper makes significant contributions to both corporate finance literature and practical applications in several important ways. First, it represents a pioneering comprehensive examination of all aspects of SG, filling a notable gap in existing literature. By using a systematic approach, we thoroughly evaluate relevant previous works on SG and provide evidence-based recommendations for future research directions, creating a foundation for scholarly advancement in this field.

Second, through the synthesis and analysis of an extensive body of research, this study develops a nuanced understanding of the economic consequences of SG mechanisms. These insights offer substantial practical value by providing evidence-based guidance to practitioners and regulatory bodies in developing more effective policies and recommendations. Financial institutions can leverage these findings to design governance frameworks that enhance compliance while optimizing performance, while regulators can use our synthesis to revise the current policy framework and formulate more comprehensive and effective oversight mechanisms that address the unique challenges of IFIs.

Our paper findings emphasize the field's considerable fragmentation and knowledge gaps and suggest a workable research agenda for the future in terms of theories, research topics, research venues and research strategies. Our findings specifically discuss the necessity to investigate how SG systems interact and affect IFIs outcomes by using pioneering theoretical frameworks and methodologies that may improve our understanding of how SG operates.

The remainder of this study is structured as follows. Section 2 discusses the methodology used in this research. Section 3 reports research findings. Section 4 discusses the paper findings and put forward several avenues for future research. Section 5 concludes the paper.

2. Methodology

Commonly known, there are three main approaches to summarize a research topic: literature review, systematic review and meta-analyses. We adopt a systematic review approach in this research, as it is appropriate to thoroughly evaluate a specific question in the objective to produce evidence and to support research (Khatib *et al.*, 2022; Khatib *et al.*, 2022; Zamil *et al.*, 2023). The systematic review technique differs from literature review technique, as it helps to better synthesis the available information to identify significant gaps and, therefore, to point future research (Endenich and Trapp, 2020; Pedrini and Ferri, 2019).

We followed the five mandatory steps in the systematic approach to identify and evaluate the quality of papers selected for this research, which are: identify the keywords, collect the papers, assess the quality of the selected papers, extract the data and, finally, analyze the collected data (Walker, 2010; E-Vahdati *et al.*, 2019).

The main objective of this research is to systematically review previous studies on SG. Therefore, we started first by identifying a group of keywords related to SG theme. Various keywords have been used to search for relevant articles including "Shariah governance," "Shariah board," "religious board," "shariah committee," "religious committee," "Corporate governance in Islamic banks" and "Shariah supervisory board." The term "Shariah" is also replaced by "Sharia'h," "Sharia" and "Shariaa," as there is different spelling of the word. Second, to build a comprehensive database of relevant studies, we explore different internet sources such as google scholars, Web of Science and Scopus databases. We also search in leading journals in Islamic finance and/or corporate governance. We looked for published papers involving the identified keywords in the title, the abstract or keywords.

We started papers collection on February 2022; our initial sample constituted of 310 research papers. After eliminating duplicated papers, non-complete articles and then screening the papers' abstracts, our sample reduced to 110 published papers. Afterward, we assessed the quality of the collected research papers based on the number of citations. Because there is a big probability that old research papers will be more cited than new research papers, we divide the papers into three groups based on the date of publication and number of citations (Walker, 2010; Khatib *et al.*, 2022). Each group follows different criteria at the quality assessment stage. Group 1 covers all research published in 2012 and before 2012. This group contains pioneer papers that helped to build the theoretical and conceptual framework for SG research. Group 2 covers the period 2013–2017. This group consists of earliest empirical papers assessing SG. Group 3 covers the period 2018–August 2022. This group consists of a large number of studies on SG issues. The final sample from these groups comprises a total of 110 articles.

For the quality assessment of Group 1, each article must be cited at least twice per year or being published in one of the leading journals in the field of research (Table 1). There were only eight papers found in this group.

For the quality assessment of Group 2, each article must be cited at least twice per year (citation matrix provided by Scopus or google scholar). There were only 29 papers found in this group.

For the quality assessment of Group 3, each article must be cited at least twice per year (citation matrix provided by Scopus or google scholar). There were only 73 papers found in this group.

3. Results

Previous research using a systematic review approach identified seven areas that they can help with detailed evaluations: research questions, modelling, data characteristics, theories used, methodology, journal outlets and studied concepts (Tenzer *et al.*, 2017; Khatib *et al.*, 2022; Khatib *et al.*, 2022; Schiehll and Martins, 2016; Nielsen, 2010;Li *et al.*, 2020). Accordingly, we start by analyzing the evolution of number of publications across the years. Then we review in depth the research method and theories discussed in these studies. Thereafter, we analyze research questions, data geography, research modelling and outcome.

Figure 1 describes the evolution of number of publications on SG during the observed period. The first identified paper was published in 1998 (Archer *et al.*, 1998). Very few papers were published before 2013. There are four mainly reasons explaining this shortage: first, the unavailability of data; second, the lack of researchers' interest on the topic; and third, shortage in journals interested by this kind of research at that time, as no leading

Table 1. The leading journals publishing quality papers (2008–2022)

Journal name	No. of published papers	%	Cumulative (%)
Journal of Islamic Accounting and Business Research	15	23	23
International Journal of Islamic and Middle Eastern Finance and Management	9	14	36
Corporate Governance: The International Journal of Business in Society	7	11	47
Humanomics	4	6	53
Global Finance Journal	3	5	58
Journal of Management and Governance	3	5	62
Research in International Business and Finance	3	5	67
Asian Journal of Economics and Banking	2	3	70
Banks and Bank Systems	2	3	73
International Journal of Economics and Financial Issues	2	3	76
ISRA International Journal of Islamic Finance	2	3	79
Journal of Banking Regulation	2	3	82
Journal of Business Ethics	2	3	85
Journal of Financial Regulation and Compliance	2	3	88
Journal of International Financial Markets, Institutions and Money	2	3	91
Journal of Islamic Economics, Banking and Finance	2	3	94
Managerial Finance	2	3	97
The International Journal of Business in Society	2	3	100

Source(s): Compiled by the authors based on primary research and analysis

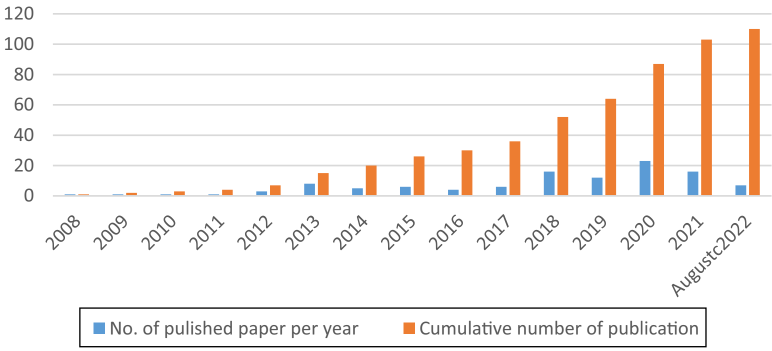

Figure 1. Number of publications per year
Source: Compiled by the authors based on primary research and analysis

journal published high-quality papers on Islamic banking; and fourth, the complexity of the topic, as it comingles religious aspects with business aspects.

Starting from 2018, the number of publications on SG increased considerably. This might be for different reasons. First, the number of PhD students from Middle East and Southeast Asia has increased considerably in the past decade. These fresh researchers focused on finding answers to research questions related to their context. Second, the few earliest works on SG helped to build a theoretical framework of SG research and opened the doors to new research areas in the field. Third, data on SG become available for most of IFIs, which boosts the number of research. Fourth, the global financial crisis had increased the interest of the Western to understand Islamic finance. Fifth, several universities in Europe, especially in the UK, offered courses on Islamic banking for undergraduates as well as postgraduates which helped to increase the number of research on SG.

Overall, the pattern of accumulated research indicates that interest in researching SG is growing.

3.1 Journal outlets

Table 2 reports the most influential journals in term of number of citations. The literature sample of SG are distributed across 37 journals. The top leading journals are: *Journal of Islamic Accounting* and *Business Research* (15 papers), *International Journal of Islamic and Middle Eastern Finance* and *Management* (9 papers) and *Corporate Governance* (7 papers). Several important journals have published only one paper.

The quantity of citations reflects the importance of the field. In all, 34 published papers have been cited more than 50 times each. The most cited articles are Mollah and Zaman (2015) (574 citations), Farook, Hassan and Lanis (2011) (543 citations), Hamza (2013) (235 citations), Ghayad (2008) (204 citations), Grassa and Matoussi (2014a, 2014b) (199 citations), Quttainah, Song and Wu (2013) (189 citations), Ginena (2014) (181 citations), Grassa (2013, 163 citations) and Nomran, Haron and Hassan (2018) (137 citations).

3.2 Research method

Table 3 reports the research method used in our selected sample. Of the papers, 72% use quantitative research method, only 9% use qualitative approach and the remaining 19% are non-empirical studies.

Table 2. The most influential journal

Journal name	No. of papers	No. of citations
Journal of Islamic Accounting and Business Research	15	1,060
International Journal of Islamic and Middle Eastern Finance and Management	9	604
Corporate Governance: The International Journal of Business in Society	7	409
Humanomics	4	623
Journal of Management and Governance	3	378
Research in International Business and Finance	3	134
Global Finance Journal	3	74
Journal of International Financial Markets, Institutions and Money	2	139
Journal of Banking Regulation	2	113
Journal of Islamic Economics, Banking and Finance	2	84
Journal of Financial Regulation and Compliance	2	74
Journal of Business Ethics	2	73
Managerial Finance	2	61
ISRA International Journal of Islamic Finance	2	38
The International Journal of Business in Society	2	36
Journal of Banking and Finance	1	574
Journal of International Financial Management and Accounting	1	189
International Journal of Bank Marketing	1	137
Pacific-Basin Finance Journal	1	128
International Journal of Business Governance and Ethics	1	105
Management Research Review	1	98
Social Responsibility Journal	1	97
Borsa Istanbul Review	1	96
Future Business Journal	1	88
Polish Journal of Management Studies	1	58

Source(s): Compiled by the authors based on primary research and analysis

Table 3. Methodologies used

	Before 2012	2013–2017	2018–August 2022	Total
Quantitative	3	17	59	79
Qualitative			10	10
Non-empirical	5	12	4	21
Total	8	29	73	110

Source(s): Compiled by the authors based on primary research and analysis

Before 2012, 62.5% of conducted research are non-empirical. The share of non-empirical papers to total papers decreased to 41% in 2013–2017 and to 5.5% after 2018. The increase of the number of studies during the period before 2012–2017 has contributed to develop a comprehensive theoretical framework for SG that helped researchers to conduct more empirical studies. Among the most cited non-empirical papers, we find Hamza (2013), Grassa (2013) Alnasser and Muhammed (2012) and Muneeza and Hassan (2014). These studies discussed mainly the importance of SG for IFIs, the difference between corporate governance of a conventional financial institutions and IFIS, the requirements for a good SG model and specificities of the existing models of SG in practices.

With the development of information technology, data on SG become easily reachable. Therefore, researchers head toward empirical studies. During 2018–August 2022, 69 empirical studies has been conducted (59 quantitative and 10 qualitative studies) compared to 20 empirical studies before 2018. Almost all quantitative studies use archival data (Neifar and Jarboui, 2018; Mollah and Zaman, 2015; Grassa, 2016; Grassa and Matoussi, 2014; Nawaz, 2019). Only one empirical paper has been conducted using primary data (Naysary *et al.*, 2020).

Ten qualitative studies have been identified. Among these qualitative studies, Haridan *et al.* (2018) use a series of semi-structured interviews to assess the quality of governance and religious assurance provided by SBs when undertaking the crucial compliance review required in fulfilling the expected ethical and social legitimacy of Islamic banks. Ullah and Khanam (2018) used an e-mail interview approach to explore whether Shariah compliance efficiency makes any difference in financial performance of Islami Bank Bangladesh Limited. Alam, Miah, Siddiquii and Hossain (2020) conducted interviews to evaluate the impact of management and the board of directors on the choices made by the SB and how those decisions were carried out.

It is obvious that there were neither mixed studies nor review papers on SG. Indeed, research in SG is considered as an emerging research field, and there are limited attempts in the field. In addition, it is obvious that there is a limited number of qualitative research or mixed-method research on SG.

3.3 Theories

The theoretical framework serves as a foundation of a research study. It explains the reasons behind the research question under study. Four main theories are used the most in the SG literature: agency theory (48 papers), stewardship theory (3 papers), resource-based theories (25 papers) and legitimacy theory (6 papers) (Table 4). Only one study used institutional theory to conceptualize a framework to establish the nexus of SG and sustainability performance for IFIs (Jan, Lai and Tahir, 2021). Our findings are consistent with previous systematic review papers which highlight the dominance of agency theory, resource theories, institutional theory and stewardship theory in governance literature (Li *et al.*, 2020; Khatib *et al.*, 2022). In total, 27 papers did not explicitly apply a theoretical foundation.

3.3.1 Agency theory. Agency theory is used in 41 quantitative studies, 4 qualitative studies and 3 non-empirical studies. Agency theory sees the firm as a set of contracts among self-interested individuals. An agency relationship is created when a person (the principal) authorizes another person (the agent) to act on his or her behalf which may create information asymmetry and agency conflicts. Several papers studied different topics under

Table 4. Theories across time

	Before2013	2013–2017	2018–August 2022	Total	%
Agency theory	1	11	36	48	57.7
Resource-based theory	1	7	17	25	30.1
Legitimacy theory	1	1	4	6	7.2
Stewardship theory		1	2	3	3.8
Institutional theory	1			1	1.2
Total	4	20	59	83	100
%	4.8%	24%	71.2%		

Source(s): Compiled by the authors based on primary research and analysis

the agency theory framework such as: SG on firm' financial performance (Farag *et al.*, 2018), SG on risk (Ben Zeineb and Mensi, 2018), SG on disclosure (Wan Abdullah *et al.*, 2013), SG on earning management (Quttainah *et al.*, 2013) and SG on credit rating (Grassa, 2016). It has been argued that agency theory is appropriate to explain the monitoring role of governance mechanisms. However, other theories can provide a better understanding of the policy formulating and advising functions of governance structures (Li *et al.*, 2020; Khatib *et al.*, 2022).

3.3.2 Stewardship theory. Only three quantitative studies have built their research framework under the stewardship theory. Stewardship theory assumes that managers, left on their own, will act as responsible stewards of the assets they control (Donaldson and Davis, 1991). Based on the foundational of this theory, Nomran, Haron and Hassan (2017) and Nomran and Haron (2020a, 2020b) see that SG helps the management to improve the firm financial performance. Ridwan and Mayapada (2022) argue that SG influences CSR disclosure in Indonesia Islamic banks.

3.3.3 Resource-based theory. According to resource-based theory, a corporation is best positioned for long-term success if it has access to resources that are valued, uncommon, challenging to duplicate and non-replaceable (Wernerfelt, 1984). Accordingly, SG aids businesses in securing scarce resources including financial resources as well as human and social capital. In all, 14 quantitative studies, 6 qualitative studies and 5 non-empirical studies used resource-based theory to explain their conceptual framework. The theory forms a theoretical foundation for the role of SB members in providing resources and advice (Grassa, 2013). Several studies used resource-based theory to explain the role of SG on financial performance (Nawaz, 2019) and on ethical disclosure quality (Sencal and Asutay, 2020).

3.3.4 Legitimacy theory. Legitimacy theory has been used in five quantitative studies and one qualitative study. According to the legitimacy theory, firms constantly work to ensure that their operations adhere to society norms and limitations (Deegan *et al.*, 2002). Based on the foundational of this theory, Grassa *et al.* (2018) explore the role of SG on Islamic banks' products and services disclosure. Farook *et al.* (2011) identify the determinants of CSR disclosure. Tabash *et al.* (2020) discuss the ethical legitimacy of Islamic banks and SG. Nomran *et al.* (2018) study the optimal SB's size to improve financial performance of Islamic banking.

3.4 Data geography

According to Table 5, most of the research papers use multi-country data (43 papers), 8 papers explored the six GCC countries and only 22 empirical research papers are based on evidence from single country: Malaysia (11 papers), Indonesia (6 papers), Bangladesh (3 papers), Iraq (1 paper) Bahrain (1 paper) and Sudan (1 paper). The highest number is observed for Malaysia, as it represents a hub of Islamic banking in Asia, and it has several Islamic universities that are interested in this track. However, the number of studies exploring separately the different GCC countries is relatively low, while GCC region represents a hub of Islamic finance and hosts many Islamic finance regulatory institutions such as the Islamic Development Bank. This can be explained by different reasons. First, most of researchers prefer to study the whole region, as it is considered a homogenous context of study. Second, much of the information is published in Arabic language and not translated in English, which can be considered as an obstacle for many researchers. Third, during our data collection, we noticed that there are many working papers exploring SG in the different GCC countries and were not published yet.

The multi-country empirical studies provide evidence from as many as 29 countries (Aslam and Haron, 2020; Aslam and Haron, 2021).

Table 5. Geographic analysis of data focus

Country/Region	Before 2013	2013–2017	2018 -August 2022	Total	%
Malaysia	1		10	*11*	12.5
Indonesia		2	5	*7*	7.9
Bangladesh		1	2	*3*	3.3
Iraq			1	*1*	1.1
Bahrain			1	*1*	1.1
Sudan			1	*1*	1.1
GCC region		3	5	*8*	9
Multi countries	3	11	43	*57*	64
Total	*4*	*17*	*68*	*89*	*100*
%	5%	19%	76%		

Source(s): Compiled by the authors based on primary research and analysis

3.5 Modeling

Qualitative studies use observations from at least one firm (Alhammadi *et al.*, 2020) or at most 24 structured interviews (Ullah and Khanam, 2018), while empirical studies include observations from at least ten firms (Ridwan and Mayapada, 2022) or at most 2,624 firms (Quttainah *et al.*, 2013). Table 6 reports that, on average, empirical studies use one regression models and tested almost seven hypotheses. It is very obvious that the effect SG on IFIs performance is the most studied topics (37 papers of 89 papers), followed by disclosure topic (11 papers) and risk topic (9 papers). Researchers use on average, one dependent variables and about three SG proxies. Hamza (2013) and Grassa (2013) stress the importance of good SG mechanisms for the stability of the IFIs. The use of three SG variables, on average, points out the shortage of comprehensive studies that involve all SG attributes.

According to Table 6, only very few quantitative research papers used moderating variables, and three papers used mediating variables. Various regression techniques have been used in the previous studies, such as structural equations, generalized least square, ordinary least square, partial least square, two-stage least square and generalized method of moments. Few empirical studies use non-linear models to test no monotonic relationships. Both Grassa (2016) and Mansoor *et al.* (2020) use ordered logit models to assess the effect of corporate governance mechanisms on Islamic banks credit ratings.

3.6 Research question

We clustered the topics covered in SG literature into different research clusters. In this section, we examine the outcomes of SG attributes studied in previous research. We categorized research outcomes into nine groups (Table 7).

3.6.1 Islamic financial institutions performance. Firm financial performance reflects the ability of a firm in using human and material resources to accomplish its objectives. An increasing number of studies provides evidences on the significant correlation between SG and IFIs performance (Table 7). Different measures have been used to proxy financial performance such as Tobin' Q as proxy for market performance (Nawaz *et al.*, 2021; Khan and Zahid, 2020); return on assets (Farag *et al.*, 2018; Grassa and Matoussi, 2014; Aslam and Haron, 2020); return on equity (Almutairi, and Quttainah, 2017; Baklouti, 2020); return on investments (Nomran and Haron, 2020); margin profit to total revenue (Haddad and Souissi, 2022); and net income margin (Djeutcheu, 2019). Previous studies provide conflicting results with regard to the effect of SG on IFIs performance. While some studies show the positive effect (Ajili and Bouri, 2018; Nomran *et al.*, 2018), others report the opposite or no

Table 6. Analysis of modeling for empirical studies

Construct under	No. of papers	No. of moderators	Average number of mediator variables	No. of dependent variables	Average number of observed countries	Average number of SG variables	Average number of regression model	Average sample size	Average number of observations	Average period of observation (years)	Average number of hypotheses
Performance	37	3	1	2.11	12.43	2.70	2.11	59.79	490.18	7.92	5.03
Disclosure	11	0	0	1.40	6.38	2.80	2.00	50.60	236.10	6.90	6.67
Risk	16	1	1	3.00	14.33	3.33	1.97	61.44	557.71	9.78	6.67
Compliance	4	0	0	1.00	2.00	3.00	1.00	61.00	347.00	9.33	8.33
Efficiency	4	0	0	1.00	5.67	1.00	1.00	49.33	470.33	8.00	3.00
CSR	3	0	0	1.00	5.33	2.33	1.00	24.67	87.00	5.00	4.67
Earning management	3	0	0	1.00	8.33	2.67	1.00	43.33	989.00	10.00	8.67
Credit rating	3	0	0	1.00	4.00	5.00	1.00	42.67	414.67	11.67	12.67
Other themes	8	2	1	1.25	1.00	2.75	1.00	70.00	319.33	8.20	5.33
Overall	*89*	*6*	*3*	*1.42*	*6.61*	*2.84*	*1.34*	*51.43*	*434.59*	*8.53*	*6.78*

Source(s): Compiled by the authors based on primary research and analysis

Table 7. Sample of studies on Shariah governance and Islamic financial institutions financial performance

Authors	Proxy	Method	Research findings
Mollah and Zaman (2015)	ROIAE ROIAA ROA ROE Tobin' Q	85 IBs 2005–2011 GLS and GMM regression	Shariah boards positively impact on Islamic banks' performance when they perform a supervisory role, but the impact is negligible when they have only an advisory role
Farag, Mallin and Ow-Yong (2018)	ROA ROA ROE	90 IBs 2006–2014 GMM regression	Shariah board size has a positive impact on IB' financial performance, and this result reinforces the fundamental role of the SB to certify permissible financial instruments and products Larger SB size may result in lower agency costs The greater the size of the unrestricted contracts, the higher the agency costs. This implies that unrestricted profit-sharing contracts are one of the main sources of the unique agency relationships in Islamic banks
Nomran, Haron and Hassan (2018)	ROA ROE ROIE	15 IBs 2008–2015 GMM regression	SSB size, doctoral qualification and change in the SSB composition have a positive impact on banks' performance SSB with cross-membership and reputation is very important in improving the performance of IBs
Grassa and Matoussi (2014a, 2014b)	ROA ROE	78 lBs and 85 conventional banks 2000–2009 GLS regression	Shariah board characteristics seemed to be a value creator for Islamic banks
Almutairi and Quttainah (2017)	ROA	82 IBs 1993–2014 Clustered regression	Increasing the size of SBs should improve monitoring and advisory functions, management behavior and organizational performance
Ajili and Bouri (2018)	ROA ROE	44 IBs 2010–2014 GLM regression	IBs valued the effectiveness of SSB much more than the conventional CG mechanisms
Nawaz (2019)	Tobin's Q	47 IBs 2005–2011 Panel regression	SSB size has negative effect on market performance

(continued)

Table 7. Continued

Authors	Proxy	Method	Research findings
Nawaz (2017)	Tobin' Q	67 IBS 2006–2009 Panel regression	Market does not favor the larger SB in the presence of large-sized governing board
Nawaz, Haniffa and Hudaib (2021)	ROA Tobin' Q	64 IBs 2007–2014 Pooled OLS regression	Prominent scholars on SB have a negative impact on market performance

Source(s): Compiled by the authors based on primary research and analysis

significant effect (Nawaz, 2019). The inconsistency behind the conflicting empirical finding can be explain by some methodological issues, sample size, period of observation, macroeconomic indicators, SG proxies used, etc. For example, Nomran and Haron (2020) provide evidence that IFIs' performance can be harmfully influenced by a large SB size, and therefore, IFIs must have an optimal SB size. The nonlinearity correlation between SG attributes and IFIs' performance has been discussed in many studies, and linear regression methods are not suitable to empirically verify this relation. The non-linear connection between SG and IFIs' performance has different reasons such as the policy-setting role of the SB and how policy might be used to accomplish the role's influence on organizational outcomes. Overall, studies on the effect of SG on IFIs performance use agency theory and stewardship theory to argument how well-governed IFIs perform better compared to poorly governed IFIs.

Besides, almost all previous research on IFIs performance focus on the financial aspect. We found only one research discussing the effect of SG on nonfinancial performance. Nurkhin *et al.* (2018) study the effect of the Sharia board on shariah compliance aspects such as Islamic banks' profit and loss sharing ratio, zakat performance and non-halal income performance. Also, research on SG and operational performance does not exist, while operational performance in terms of growth is a crucial outcome of CG (Li *et al.*, 2020).

3.6.2 Disclosure quality. Making relevant information publicly available to consumers, investors and analysts may have different positive impacts on IFIs. A limited number of studies discuss the extent of SG disclosure or the association between SG attributes and disclosure (11 papers). The early research on SG disclosure explored the extent of ethical disclosure. Wan Abdullah *et al.* (2013), using content analysis, explore SB- and zakat-related information disclosed in the annual reports of 23 Islamic banks in Malaysia and Indonesia. The paper findings show that SB-related information and zakat disclosures are still limited and SB cross-membership and SB knowledge in accounting, banking, economics or finance are two determinants of SB related information and zakat disclosures. Darmadi (2013) explores corporate governance disclosure in annual reports of Indonesian IFIs. Findings provide evidences that the two largest and oldest institutions have the higher disclosure index compared to their peers.

The increasing interest on SG and disclosure quality relationship was driven by the important and rapid expansion of the Islamic finance industry worldwide. It was argued that transparency and accountability of IFIs help them to expend their business globally. Recent empirical studies assessed the effect of SG on risk disclosure and management (Neifar and Jarboui, 2018; Elamer *et al.*, 2020), SG disclosure (Noordin and Kassim, 2019), Islamic banks' products services disclosure (Grassa *et al.*, 2018), CSR disclosure (Grassa *et al.*, 2019; Al-Bassam *et al.*, 2018), ethical disclosure (Sencal and Asutay, 2020), financial, social and shariah disclosure (Mukhibad *et al.*, 2022).

Table 8 summarizes the findings of some papers on the effect of SG on disclosure. Previous studies report mixed results. In one hand, Elamer *et al.* (2020) and Neifar and Jarboui (2018) show the significant positive association between SB and operational risk disclosure. In the other hand, Noordin and Kassim (2019) report weak association between SB attributes and the extent of Shariah disclosure of Malaysian Islamic banks.

The number of studies on SG disclosure and of the effects of SG attributes on disclosure quality is still limited. Moreover, existing studies mainly concentrated on the disclosure quality of non-financial information. Also, there is a lack of research that explores these topics on a single country basis and a lack of study using content analysis.

3.6.3 Risk. Risk sharing is one of the fundamentals of Islamic finance. However, only very few studies discuss the impact of SG on risk (nine papers). Different proxies have been used to

Table 8. Sample of studies on Shariah governance and disclosure

Authors	Proxy	Method	Research summary
Elamer, Ntim, Abdou and Pyke (2020)	Operational risk disclosure	63 IBs 2006–2013 GLS regression	SB is statistically significant and positively associated with operational risk disclosure
Noordin and Kassim (2019)	SG disclosure	16 IBS 2009–2013 Multiple regression analyses	There is a weak association between SB attributes and the extent of Shariah disclosure of Malaysian Islamic banks in 2013
Grassa, Chakroun and Hussainey (2018)	Islamic banks' products services disclosure	78 IBs 2004–2012 GLM estimation	There is a positive association between products services disclosure and SB size
Grassa, El-Halaby and Hussainey (2019)	CSR disclosure, SB disclosure and financial disclosure	95 IBs 2013 GLS estimation	Shariah audit department is effective in influencing the level of disclosure practices in Islamic banks
Neifar and Jarboui (2018)	Operational risk disclosure	34 IBs 2008–2014 Correlation and multiple regression analyses	SB affects significantly the operational risk disclosed information
Darmadi, S. (2013)	Corporate governance disclosure	7 IBs Content analysis	Disclosure on SG is considerably low comparing to the disclosure on other governance mechanisms
Wan Abdullah *et al.* (2013)	Shariah disclosures	23 IBs 2009 Content analysis	SB-related information and zakat disclosures are still limited. Among the factors associated with SB-related disclosures are SB cross-membership and SB knowledge in accounting, banking, economics or finance
Sencal and Asutay (2020)	Ethical disclosure	41 IBs 2007–2014 One-step GMM regression	The popularity of shariah scholars is significant determinant for ethical disclosure index The existence of an internal shariah auditing department holds some explanatory power The duration of shariah compliance is particularly a deterministic factor in terms of complying with AAOIFI standards for SB report
Mukhibad *et al.* (2022)	Financial, social and shariah disclosure	14 IBS 2010–2020 GMM	SB with an educational background in finance/accounting has a positive influence on disclosure The size of SB is correlated with increased disclosure

Source(s): Compiled by the authors based on primary research and analysis

asses risk such as credit risk (Aslam and Haron, 2021), liquidity risk (Safiullah and Shamsuddin, 2018), Z-score (Ben Zeineb and Mensi, 2018), insolvency risk (Isa and Lee, 2020) and other many risk variables (Table 9). Previous studies reported conflicting results with regard to the effect of SG on risk behaviors. While some findings provide evidences that SB size increase credit risk, liquidity risk and insolvency risks (AlAbbad *et al.*, 2019), others provide evidences that SB size and qualifications reduce operational and insolvency (Isa and Lee, 2020). Using Z-score as risk proxy, Khalil and Taktak (2020) show that SB size has a significant positive effect on the Z-score, thereby causing a negative impact on risk and efficiency. Isa and Lee (2020) add that scholars with finance/banking qualifications have a positive impact on risk. AlAbbad *et al.* (2019) argue that the effect of SB composition and risk is more significant for GCC IFIs than others countries, as SG is ruled internally at the institution level. Basiruddin and Ahmed (2019) argue financial expertise and higher frequency of SB meetings reduce the Shariah non-compliant risk. Hence, IFIs with strong SG structure reduce Shariah non-compliant risk.

There is no doubt that sample size, period of observation and the used statistics method may be the main raisons for these conflicting results. The number of studies on SG attributes and risk is still limited to make a conclusive decision.

3.6.4 Other themes. The body literature on SG shows a variety of explored research themes. Three empirical papers explore the effect of SG on IFIs' efficiency and report a positive association between efficiency and SB governance (Safiullah, 2021), the central Sharia board (Mezzi, 2018) and the investment account holders (Srairi *et al.*, 2022).

Other three papers discuss the effect of SG on earning management and provide conflicting results. While Kolsi and Grassa (2017); Elghuweel *et al.* (2017) and Quttainah *et al.* (2013) find that large Shariah board size manages less earning, Mersni and Othman (2016) report that hat small SBs are more effective because of the higher costs and negative effects of large groups on decision-making.

Few research explored the effect of SG on credit rating (Grassa, 2016; Mansoor *et al.*, 2020), on fund management (Hasan *et al.*, 2020), on shariah compliance (Ahmed and Khatun, 2013), on internal audit function (Sulub *et al.*, 2020), on AAOIFI compliance (Mnif and Tahari, 2020), on fraud mitigation (Mukhibad *et al.*, 2021) and on liquidity creation (Safiullah *et al.*, 2020).

3.7 Shariah governance attributes

Table 10 summarizes the most used SG attributes in previous studies. The most discussed attributes are SB size (56 papers), SB qualifications (27 papers), SB interlock (20 papers) and SB expertise (18 papers), while other attributes have received less attention such as SB diversity, SB compensation and SB experience. Besides, despite that Investment Account Holders are considered as an important SG mechanisms, only very few numbers of studies discussed this attribute (Mersni and Othman, 2016; Grassa, 2016). Our finding has different explanations. First, many IFIs do not disclose data related to SB diversity or SB compensation. Second, data related to the Investment Account Holders have to be collected manually from annual reports. Researchers having limited knowledge in accounting and reporting face difficulty to extract such data. Third, there is no comprehensive database for SG that may help researchers to explore new SG attributes. Most of the studied SG attributes are manually collected.

4. Discussion and future research agenda

4.1 Theories: future directions

Table 4 reveals a predominant reliance on agency theory within the sphere of SG research. This trend is observed despite the foundational assertions by early studies

Table 9. Sample of studies on Shariah governance and risk

Authors	Proxy	Method	Research summary
Aslam and Haron (2021)	Credit risk liquidity risk operational risk	129 IBs 2008–2017 GMM estimator	SB size is positively and significantly related to credit and liquidity risk
Ben Zeineb and Mensi (2018)	Z-score	57 IBs 2004–2013 Seemingly unrelated regressions	SB size has a positive and a significant effect on the Z-score, thereby causing a negative impact on risk and efficiency
Safiullah and Shamsuddin (2018)	Liquidity risk credit risk Operational risk insolvency risk	94 IBs 2003–2014 GLS random-effects estimator	SB size reduces both operational and insolvency risks SB qualifications are favorable to mitigate IBs’ insolvency risk SB reputation tends to increase both insolvency risk and operational risk. Members of the SB and boards of many national and international shariah standard-setting bodies who are well-known shariah experts. Their ability to effectively oversee bank-level risk exposures may be compromised as a result of having to divide their time and resources among many entities
Isa and Lee (2020)	Insolvency risk Z-score Portfolio risk	15 IBs 2007–2016 GLS random-effects regression	SB members with shariah qualification reputable scholars have a negative impact on risk-taking, while scholars with finance/banking qualifications have a positive impact
Khalil and Taktak (2020)	Standard deviation of ROA	67 IBs 2005–2014 GLS regression	SB size impacts negatively IBs’ financial soundness of Islamic banks Shariah scholar with knowledge in finance/accounting, the presence of mufti, interlock member and the foreign shariah scholar do not impact IBs’ financial soundness
AlAbbad, Hassan and Saba (2019)	SD annual net profit / average total assets SD of annual income /average total assets Z-score	70 IBs 2000–2011 GLS RE regression	SB size and the proportion of busy board in SB impact positively Islamic banks’ asset return and insolvency risks Foreign SB members are more effective in monitoring banks’ shariah compliance The relation of SB composition and bank risk is very significant for GCC IBs, as SG is ruled internally at the institution level

Source(s): Compiled by the authors based on primary research and analysis

Table 10. Shariah governance attributes used in Shariah governance literature

SG attributes	No. of papers	Example of papers
SB size	56	Elamer *et al.* (2020); Hakimi *et al.* (2018); Nomran and Haron (2019); and Sencal and Asutay (2020)
SB qualification	27	Safiullah and Shamsuddin (2018); Khalil and Taktak (2020); and Srairi (2018)
SB interlock	20	Nomran and Haron (2019); Almutairi and Quttainah (2017); and Abdallah and Bahloul (2021)
SB expertise	18	Mnif and Tahari (2020); Basiruddin and Ahmed (2019); and Almutairi and Quttainah (2017)
SB existence	14	Elamer *et al.* (2020); Nawaz *et al.* (2021); and Neifar *et al.* (2020)
SB meetings	13	Isa and Lee (2020); Baklouti (2020); and Basiruddin and Ahmed (2019)
SB reputation	11	Farook *et al.* (2011); Alman (2012); and Nomran *et al.* (2017)
SB diversity	6	Grassa and Matoussi (2014a, 2014b); and Khan and Zahid (2020)
SB compensation	3	Basiruddin and Ahmed (2019)
SB experience	3	Grassa and Matoussi (2014)
Others attributes	30	

Source(s): Compiled by the authors based on primary research and analysis

(Ahmed and Chapra, 2002; Hamza, 2013; Grassa, 2013; Muneeza *et al.*, 2011) that the theoretical underpinnings of corporate governance in IFIs necessitate a distinct approach from their conventional counterparts. This distinction stems from the inherently different principles and values that guide the two sectors. Consequently, there is a pressing need for future research to forge new theoretical frameworks that truly encapsulate the unique values and principles of the industry.

The limitations of agency theory in the Islamic finance context become particularly evident when considering the maqasid al-Shariah (objectives of Islamic law), which emphasize social welfare and ethical considerations alongside profit maximization. Our analysis reveals most sampled studies rely exclusively on agency theory, potentially constraining the field’s theoretical development. This overreliance creates a conceptual tension: while agency theory focuses primarily on the principal–agent relationship and information asymmetry, IFIs operate within a complex network of stakeholders with diverse interests extending beyond purely financial outcomes.

Several alternative theoretical perspectives deserve greater exploration. Stakeholder theory, which appeared in a group of studies, offers promising avenues for understanding the multilayered accountability structures in IFIs, particularly regarding the role of SBs as representatives of religious interests. Similarly, stewardship theory aligns well with the Islamic concept of amanah (trusteeship), wherein managers are viewed as stewards of resources entrusted to them by God rather than purely self-interested agents.

The institutional context of IFIs further complicates theoretical applications. Our cross-country analysis indicates significant variations in SG implementations across different regulatory environments, suggesting that institutional theory might provide valuable insights into how these practices are shaped by sociocultural factors and regulatory frameworks.

Future research should prioritize developing integrated theoretical frameworks that synthesize elements from multiple theories while incorporating distinctive Islamic principles such as tawhid (unity), adl (justice) and ihsan (excellence). Such theoretical innovation is essential for advancing the field beyond merely adapting conventional governance theories to the unique ethical and operational landscape of Islamic finance.

4.2 Context of study

A select number of studies, such as those by Darmadi (2013), Nomran *et al.* (2018) and Hakimi *et al.* (2018), have provided evidence based on data from individual countries. This contrasts with the majority of previous research on SG, which has tended to focus on broader regions or groups of countries, such as the GCC region or Southeast Asia, with the aim of maximizing the number of observations. However, the diversity of market conditions, levels of financial development, regulatory environments and legal frameworks across different contexts can significantly influence the development and effectiveness of SG systems within these economies. Evidence from single-country studies is crucial for developing a nuanced understanding of the various SG mechanisms in place, their efficiency and performance. Such insights are invaluable for formulating optimal SG practices. Hence, it is imperative for future research to delve into the distinct impacts of SG within individual countries.

Additionally, there is a noticeable gap in the literature regarding SG in Western contexts. Despite the presence of numerous IFIs operating within Europe and the USA, there appears to be a lack of research focused on SG practices in these Western settings. This oversight is significant, especially considering that the Western context may present unique challenges for this type of business. Therefore, addressing this gap in future research is essential, to not only enhance our understanding of SG across diverse geopolitical landscapes but also ensure the robust development of SG practices that are adaptable to the varying conditions of global markets.

4.3 Research question

Our analysis uncovers a notable lacuna within the existing body of literature, predominantly centered on the outcomes of SG. While there is a burgeoning number of studies investigating these outcomes, there is a critical need for future research to systematically explore potential antecedents of SG across various levels, including the individual, SB, external stakeholders, IFIs and the broader SG context. This multidimensional approach is essential for a comprehensive understanding of SG dynamics. Furthermore, our findings illuminate a prevailing tendency among empirical studies to concentrate on the identities of the governors ("who" is governing) rather than the methodologies of governance ("how" to govern). Current research predominantly examines profile characteristics, such as the attributes of SBs. However, there is a compelling need for future studies to delve deeper into behavioral characteristics. This includes exploring the roles of SBs, their meetings, the function and impact of subcommittees and the employment of informal mechanisms of governance. By shifting focus toward these underexplored areas, future research can significantly contribute to a more nuanced and effective understanding of SG practices. Such an exploration is pivotal for developing governance mechanisms that are not only compliant with Shariah principles but also effective in achieving the strategic objectives of IFIs within the complex and varied landscapes in which they operate.

4.4 Shariah governance proxies

One of the main gaps identified in this research is that only limited number of SG proxies have been studied (Table 10). Indeed, the extensive use of these SG variables can be for two reasons. The first is the data availability. The second is that most of previous studies were replicating proxies used to identify board of directors' characteristics on SB characteristics, which may not help to produce a comprehensive understanding about the functionality of the SB. Because the purpose, the responsibilities and the functionality of the SB are different from those of the board of directors; future research must fill this gap and researchers have to think differently to assess the efficacy of this governance mechanism. Besides, there are critical gaps around the relationship and interaction between different SB members. Future researchers to explore these relationships. Moreover, there is a need to examine other types of SB composition such as gender, Fiqh School, geographic location and prior experience. Furthermore, given multiple important SB roles and limited SB size, future studies may explore: What IFIs SB composition structure will achieve the greatest level of efficiency and performance? Future researchers should build on our understanding that each type of scholars carries certain benefits and costs to IFIs.

In addition, despite that Investment Account Holders are considered as an important SG mechanisms, only very few numbers of studies discussed this attributes (Mersni and Othman, 2016; Grassa, 2016). Future research must take into consideration this important governance mechanism to assess the efficacy of SG.

4.5 Archival data

Another critical gap identified in this study pertains to the reliance on archival data sets in much of the previous research. Our analysis reveals that most of the reviewed studies used data sets from before 2018, with only a limited number of studies incorporating data from the past three years. This temporal disconnect is particularly problematic in the rapidly evolving landscape of Islamic finance, where regulatory frameworks, market conditions and technological innovations are continuously reshaping SG practices. The COVID-19 pandemic introduced unprecedented challenges for IFIs regarding Shariah compliance in digital transactions and emergency financing – issues largely unexamined in pre-pandemic data sets. Similarly, recent regulatory changes in key markets have significantly altered SG requirements, rendering older studies potentially outdated. Consequently, there is a pressing need for future studies to incorporate more recent data sets. Using up-to-date data is imperative for drawing accurate and timely conclusions that reflect the current realities of the field. Engaging with contemporary data sets will ensure that insights generated are directly applicable to the evolving dynamics of Islamic finance, thereby contributing to more informed decision-making and strategy development.

4.6 Methodological issues (endogeneity issues)

Endogeneity represents a statistical issue that occurs in multiple regression analysis when an independent variable is correlated with the error term. Equations used to test hypotheses may contain biased and inconsistent estimators because of endogeneity issues. Omitted variables or self-selection dilemmas are the causes of endogeneity.

Our analysis of the literature revealed that most quantitative studies on SG failed to address endogeneity concerns, despite the inherent nature of governance studies making them particularly susceptible to this problem. For instance, the relationship between SB characteristics and firm performance may be bidirectional – high-performing IFIs might attract more qualified Shariah scholars, rather than the scholars causing improved performance.

This methodological oversight substantially undermines the validity and reliability of causal inferences drawn in previous research. Common techniques to address endogeneity such as instrumental variables, generalized method of moments estimators or panel data methods were noticeably absent in most studies. Future research on SG must test for endogeneity through appropriate statistical techniques to validate research findings and establish more credible causal relationships between governance mechanisms and institutional outcomes.

4.7 Shariah governance disclosure

In the realm of research focusing on SG and disclosure quality, a prevalent critique applicable to the broader disclosure literature may also pertain to this specific topic. Specifically, the employment of content analysis techniques to assess the level of disclosure in IBs could potentially introduce bias. This is attributable to the fact that researchers depend on their own judgment during the coding process, as highlighted by Hassan and Marston (2019). Such subjective interpretation can affect the consistency and objectivity of the results.

Our systematic review identified that most disclosure studies in the SG literature use manual content analysis methods with limited inter-coder reliability testing. This methodological weakness is particularly problematic when examining disclosures, where technical terminology requires specialized knowledge. Studies by Tabash *et al.* (2020) and Safiullah *et al.* (2020) reached contradictory conclusions about disclosure trends in the same markets, likely because of differences in subjective coding frameworks.

The creation of self-constructed disclosure indices tailored for IBs often necessitates a labor-intensive data collection process, leading to smaller sample sizes and limiting the generalizability of findings. Moreover, the heterogeneity of disclosure indices makes cross-study comparisons difficult, with various standards being used as benchmarks.

Methodological innovations are urgently needed in this area. Computer-assisted textual analysis and mixed-methods approaches incorporating qualitative insights from Shariah scholars could provide deeper contextual understanding of disclosure practices. These challenges underscore the need for methodological rigor and alternative approaches that can mitigate bias and enhance the reliability of research in SG disclosure quality.

5. Conclusion

Our systematic literature review of 110 published quality paper of SG identifies 37 journal outlets and categorizes research into quantitative (79 papers), qualitative (10 papers) and non-empirical (21 papers). We also identify five different theoretical perspectives, with agency and resource theories the most frequently used perspectives.

Most empirical research is based on evidence of group of countries or region (e.g. GCC or/and Southeast Asia regions), while only a few papers provide evidence from single country and no evidences from Western countries. Remarkably, few papers use non-linear model to capture non-monotonic relationships. We also categorize papers according to their research questions. Most research papers address the outcomes of certain SG attributes, while few research papers are merely descriptive or discuss some fundamental issues for SG.

Building upon our comprehensive analysis of the existing literature, we identify several promising directions for future research within the domain of SG. Our recommendations are as follows: first, we advocate for future research to incorporate behavioral perspectives to deepen the understanding of how SG practices impact, and are impacted by, the perceptions and behaviors of SB members. This approach can shed light on the nuanced dynamics that govern the decision-making processes and governance outcomes in IFIs. Second, there is a notable need for future studies to transition from examining “who” is involved in governing to exploring “how” effective governance is conducted. This shift is crucial for uncovering the mechanisms through which governance practices are operationalized and for identifying strategies that enhance governance effectiveness. Third, future research should focus on the intricate relationships between various stakeholders within specific SG structures. Understanding these relationships is essential for identifying how different interests and expectations are balanced and integrated into the governance framework of IFIs. Fourth, instead of seeking a one-size-fits-all “optimal” SG structure, we believe that researchers should adopt contingency perspectives. This approach acknowledges the diversity of contexts in which IFIs operate and allows for the development of governance models that are adaptable to varying environmental conditions, regulatory frameworks and institutional objectives. Fifth, for relevant and accurate research findings, we recommend future studies to use the most current data sets available. Access to up-to-date information is critical for drawing conclusions that are reflective of the current situation and for making informed recommendations that can guide policy and practice in real-time. Sixth, future research directions must address several critical areas to advance technology-enabled SG. Scholars should conduct empirical studies examining implementation challenges and effectiveness of blockchain solutions for automating Shariah compliance verification. Additionally, investigations into how SG frameworks should evolve to accommodate emerging fintech innovations like robo-advisory and tokenization within Islamic contexts will be essential for future development. The exploration of artificial intelligence and machine learning applications for enhancing Shariah screening while maintaining compliance with Islamic principles represents another promising research avenue. Approaches to harmonizing technology-enabled SG standards across jurisdictions will be crucial for facilitating global Islamic digital finance growth. Finally, studies on the acceptance of technology-enabled SG mechanisms among key stakeholders including Shariah scholars, regulators and customers will provide valuable insights into adoption challenges and success factors in this rapidly evolving field.

Our systematic literature review reveals that SG impacts extend far beyond financial institutions. Strong governance practices build trust and increase financial inclusion, particularly among conservative Muslim communities. The findings demonstrate how robust SG mechanisms promote responsible finance, influence policy development and enhance financial literacy at the community level, directly contributing to social well-being. Enhanced transparency in SG bridges understanding gaps between Islamic and conventional systems by demonstrating alignment with universal ethical values. When stakeholders clearly understand SG mechanisms, decision-making processes and compliance mechanisms, it reduces misconceptions and builds cross-market trust. Furthermore, robust governance frameworks facilitate financial inclusion by establishing standardized products serving both Muslim minorities and other underserved communities in non-Muslim-majority countries, providing the regulatory certainty needed to address both faith-based and socioeconomic barriers to financial participation.

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